

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

OPERATING 1586 RETAIL STORES

Annual Report

1940

December 31, 1940

FOREWORD . . .

At the close of business on December 31, 1940, the J. C. Penney Company was operating 1586 stores located in every one of the forty-eight states, and had for the year a sales volume of \$304,539,326, a gain of 7.94% over the preceding year.

The business started on April 14, 1902, when James Cash Penney opened a little store called "The Golden Rule" in a frame building twenty-five feet wide by forty-five feet deep in the coal-mining town of Kemmerer, Wyoming. The growth of the Company has come about through an unswerving adherence to the principles upon which that first little store was founded—the principles of packing the customer's dollar to the limit with quality, value and satisfaction; of serving the public as nearly as possible to its entire satisfaction; of eliminating all unnecessary expense; of buying for cash and selling for cash; of sharing the profits of the Company, generously and liberally, with those who help to produce them.

The story of the years in between these dates is one of the most exciting in the history of retail distribution. It tells of the triumph of sound business policy over depressions, war conditions, and economic changes. Adjustments in operating practice, to meet changing conditions and the phenomenal growth of the Company have, of course, been made and will continue to be made, but the fundamental policies upon which the Company was founded remain unaltered.

Facts and figures for the most recent chapter in the story of the J. C. Penney Company are presented in this report—the chapter dealing with the 38th year of the Company's life, the year 1940, in which the Company opened its 1586th store and for the first time exceeded the \$300,000,000 mark in volume.

TO THE STOCKHOLDERS OF
J. C. PENNEY COMPANY:

In this report the December 31, 1940 Balance Sheet and supporting statements for J. C. Penney Company and its wholly owned subsidiaries are presented to you. I believe these will afford satisfaction as to the result of the company's 1940 operation as well as to the company's financial security and operating position.

The merchandise inventory position, in the opinion of the management, meets in large measure the working needs of present conditions. It is felt that the size and condition of the merchandise investment are such as to permit to a reasonable degree any adjustment of company operations which might be suggested by expansion or contraction in general business conditions during the ensuing year.

The cash account amounts to \$27,440,916.18. This is viewed as being in ample proportion to suggested demands and, besides, is a protective reserve against any needs that might arise due to rapidly changing circumstances. The increase in the cash account from the prior year-end is largely the result of the sale during the year of 200,000 shares of company stock under the Profit-Sharing Retirement Plan as approved by the vote of the stockholders. This Plan was adopted in the interest of the workers' security and to continue in effect, in more constructive form, the company's fundamental policy of encouraging its store managers and central and branch office executives by permitting them to share in the profits as they helped to produce them. The response to the adoption of the Plan has more than matched our expectations.

The ratio of current assets to current liabilities, as brought out by the Balance Sheet, continues at almost 5 to 1.

The company's investment in fixed assets remains proportionately almost the same as for the prior year-end. What increase there has been in those accounts has, in the management's opinion, been required by individual store demands, and in great part has been already justified by results obtained.

Net profit for the calendar year of 1940 amounted to \$16,230,608.84 equal to \$5.91 per share on each of the 2,743,984

shares outstanding at the year-end. This compares with \$16,481,213.64 equal to \$6.48 a share on the 2,543,984 shares outstanding for the prior year of 1939.

In reviewing these results you should, of course, make allowance for the 200,000 shares of stock issued for the purpose outlined above.

The company's sales for the year of 1940 reached a new peak of \$304,539,325.64. This compares with \$282,133,933.64 for the year of 1939, or an increase for 1940 of 7.94%.

The total number of stores in operation at the year-end was 1586, representing a net increase over the prior year in number of stores of 32. I again wish to report that the management entertains no immediate plans calling for any concerted effort toward broad expansion. Instead, it expects to follow the recently operative policy of selective expansion where, in the management's opinion, opportunities are presented in line with sound operating possibilities.

During 1940 the Company Directors again voted and directed paid, dividends totaling \$5.00 per share made up of four regular quarterly dividends of 75c and a year-end extra of \$2.00. It is felt that this total payment was warranted by the years financial position and operations.

Over the year just past, the company continued its attempt to acknowledge fittingly the efforts and production of its workers and management staff. I believe that the high degree of loyalty and fidelity manifested by all associates indicates an appreciation of the company's efforts to reward them properly and fairly, and in large measure has contributed to the satisfying result obtained. I take this opportunity of extending to all those workers my own and the appreciation of the Directors of the company for their efforts.

Respectfully submitted,

March 1st, 1941



President

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

BALANCE SHEET

As at December 31, 1940.

ASSETS

Current Assets:

Cash in Banks and on Hand	\$ 27,440,916.18*
Accounts Receivable — Trade and Miscellaneous	540,074.80
Merchandise, at the lower of cost or market	<u>57,665,401.36</u>
Total Current Assets	85,646,392.34

Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:

Advances	\$ 4,525,000.00	
Capital Stock and Surplus	<u>700,353.04</u>	5,225,353.04

Mortgages Receivable	112,391.37
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Fixed Assets — at net sound values based on estimated replacement cost at December 31, 1932, plus subsequent additions at cost:

Land and Buildings	3,122,912.85
Less Reserve for Depreciation	<u>330,947.96</u>
	2,791,964.89

Furniture and Fixtures, less Provision for Depreciation	8,328,227.30
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Improvements to Leaseholds, less Amortization	<u>1,757,048.54</u>	12,877,240.73
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Deferred Charges — Unexpired Insurance Premiums, Rent Advances, Etc.

645,006.87
<u>\$104,506,384.35</u>

NOTE: *After deducting employees' contract compensation due at December 31, 1940 but paid subsequently thereto.

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

BALANCE SHEET

As at December 31, 1940.

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 13,709,730.23
Provision for Federal Taxes on Income	<u>5,162,653.30</u>
Total Current Liabilities	18,872,383.53

Reserves for Fire Losses, Etc., and Employees'

Death Benefits	2,406,439.36
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Common Stock, no par value:

Authorized, 3,000,000 shares.	
Outstanding, 2,743,984 shares	33,822,766.67

Surplus (Earned):

J. C. Penney Company	\$ 48,754,441.75	
Undistributed Surplus of Subsidiaries	<u>650,353.04</u>	49,404,794.79

\$104,506,384.35

J. C. PENNEY COMPANY

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1940.

(Including Profits of Subsidiaries)

Sales		\$304,539,325.64
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$278,499,713.01	
Maintenance and Repairs	696,159.42	
Depreciation and Amortization (based on December 31, 1932 reduced book value or cost if acquired subsequently)	1,379,914.99	
Taxes, other than Taxes on Income	3,359,540.96	283,935,328.38
		<u>20,603,997.26</u>
Discount on Purchases, Interest Received and Miscellaneous Income (Net)		940,014.01
Net Profit before Provision for Taxes on Income		21,544,011.27
Provision for Taxes on Income:		
Federal Normal Income Tax	5,130,000.00	
Federal Excess Profits Tax	27,000.00	
Other Income Taxes	371,000.00	5,528,000.00
		<u>16,016,011.27</u>
Add 1940 Profits of Subsidiaries		214,597.57
Transferred to Surplus		<u>\$ 16,230,608.84</u>

Note:

Common Stock outstanding at end of year — Shares	<u>2,743,984</u>
Earnings per share of Common Stock, as above	<u>\$ 5.91</u>

EARNED SURPLUS ACCOUNT

Surplus at December 31, 1939	\$ 46,635,389.61
Deduct Adjustment of prior years' Federal Income Taxes (Net) — J. C. Penney Company and Subsidiaries	41,283.66
	<u>46,594,105.95</u>
Net Income for 1940	<u>16,230,608.84</u>
	<u>62,824,714.79</u>
Cash Dividends on Common Stock	13,419,920.00
Surplus at December 31, 1940	<u>\$ 49,404,794.79</u>

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

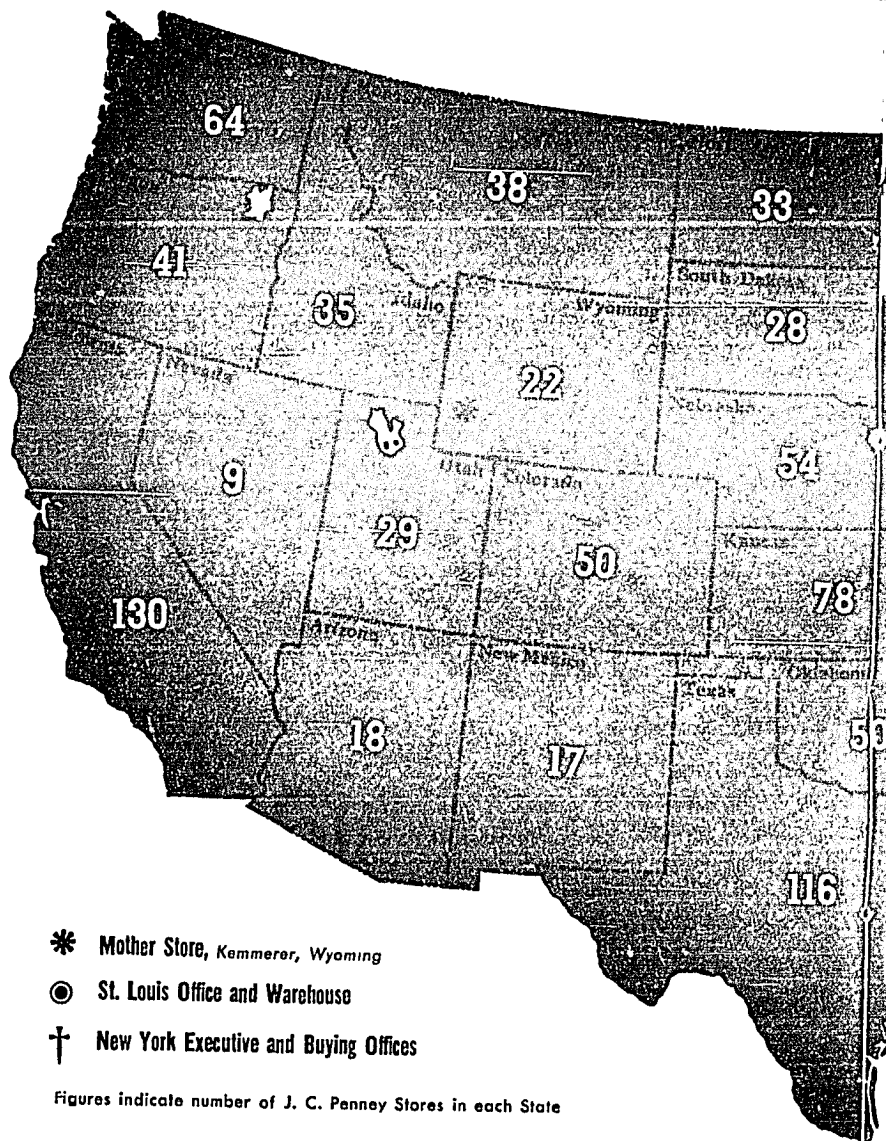
We have examined the Balance Sheet of the J. C. Penney Company as at December 31, 1940, and the statements of Profit and Loss and Surplus for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the J. C. Penney Company at December 31, 1940 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

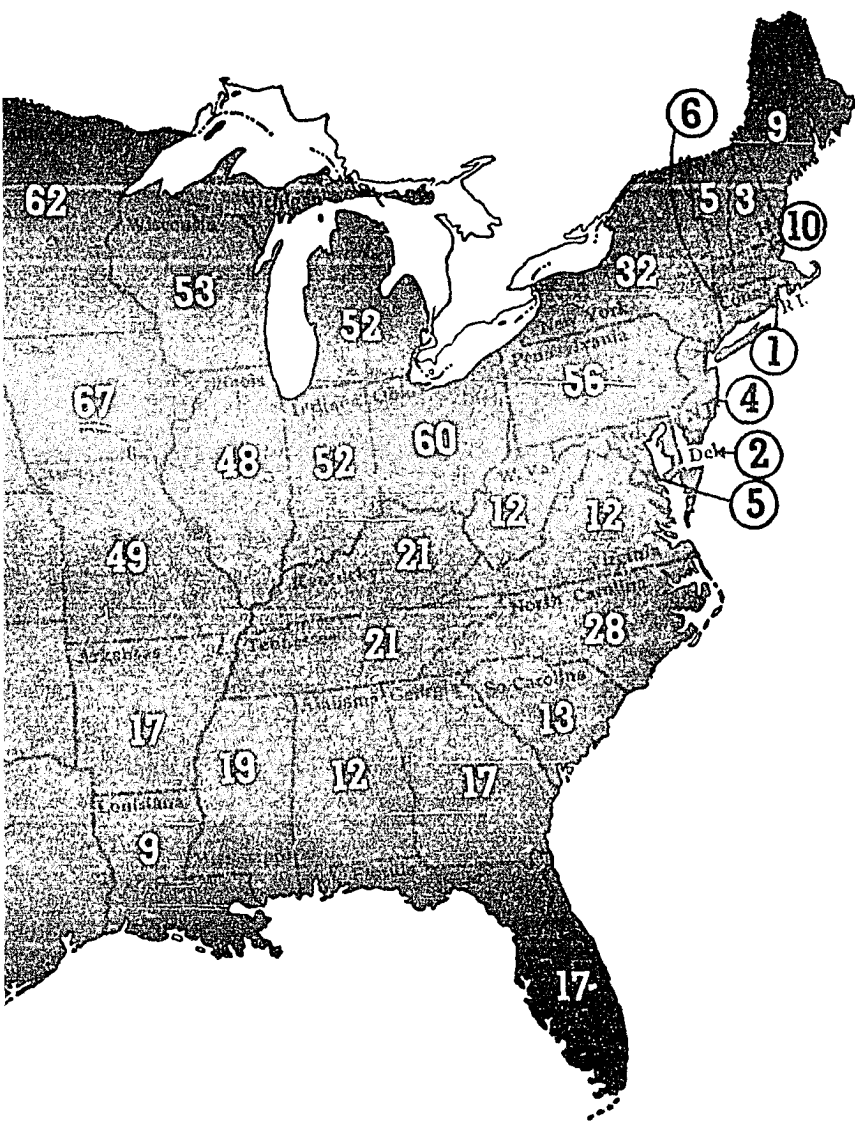
PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
March 1, 1941

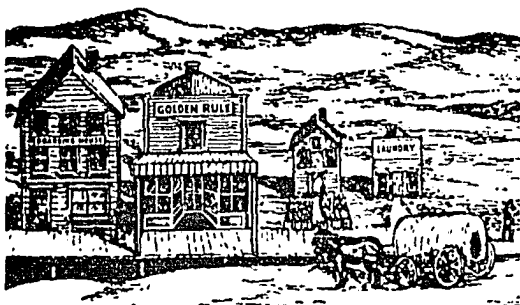
A NATIONWIDE INSTITUTION OF 1586 ST



RES OPERATING IN FORTY-EIGHT STATES

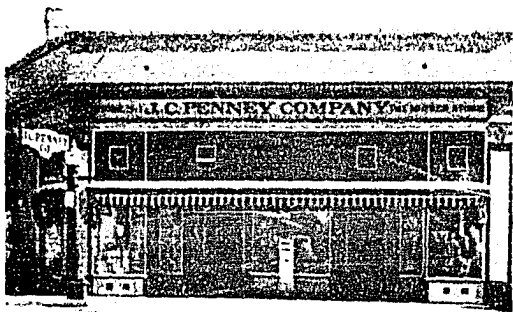


THE KEMMERER STORE, 1902—



It's a far cry from the rickety frame building in which Mr. J. C. Penney opened up his first store, under the name of "The Golden Rule," to the modern, streamlined stores now being opened and operated by the J. C. Penney Company.

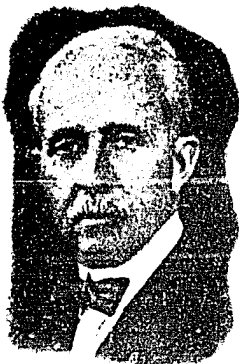
THE KEMMERER STORE AS IT IS TODAY—



... illustrating the way in which J. C. Penney stores continue to fit themselves into the communities in which they are located.

J. C. PENNEY

Chairman of the Board



Mr. James Cash Penney, founder of the Company which bears his name, was its president until 1917 when he became Chairman of the Board of Directors—his present position. He developed the manager-partnership plan to which the success of the Company is in very large measure to be attributed.

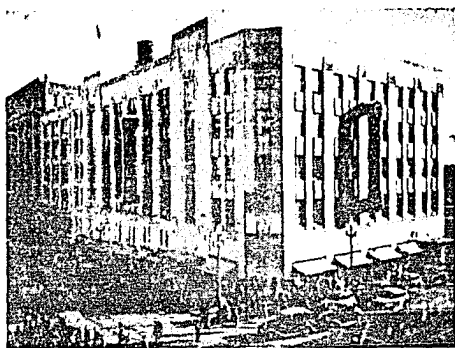
E. C. SAMS

President



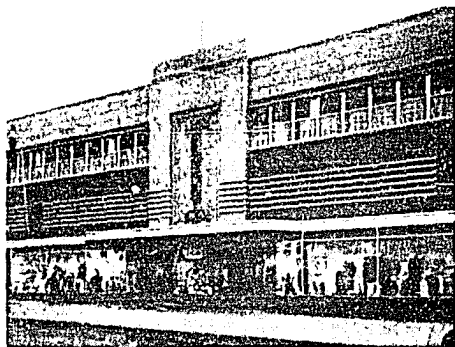
Mr. Earl Corder Sams became president of the Company in 1917. He joined the organization in Kemmerer, Wyo., in 1907 when Mr. Penney employed him as a salesman in his first store. His rise from the ranks is typical of the history of every officer, executive, and store manager within the Company.

PENNEY STORES SERVE MANY DIFFERENT TYPES OF COMMUNITIES—THEY ARE NATION- WIDE IN RESOURCES BUT LOCAL IN OPERATION



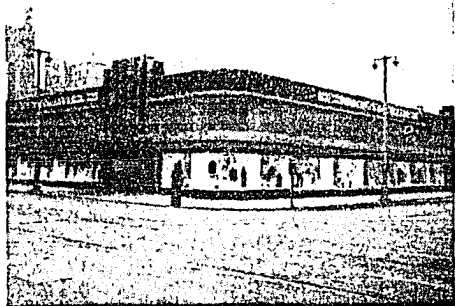
SEATTLE, WASHINGTON

Typifying the expansion of the J. C. Penney Company in major cities, the downtown Penney store—together with three smaller community stores—serves this metropolis of the Pacific North West.



SALT LAKE CITY, UTAH

The J. C. Penney Company is one of the leading merchants in the inland empire basin, with 29 stores in Utah. The Salt Lake store is located in the heart of the city.



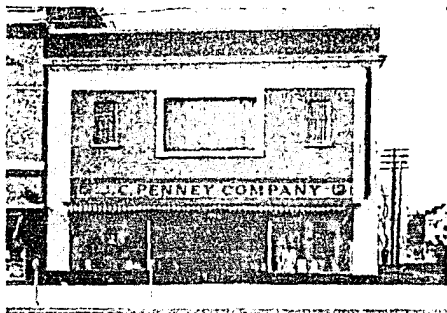
MILWAUKEE, WISC.

One of the major markets of the country, this thriving industrial center has extensive Penney coverage. This large J. C. Penney store is located in the center of the city and is supplemented by four smaller neighborhood stores.

PENNEY STORES ARE JUST AS MUCH AT HOME IN LARGE CITIES AS IN SMALL—IN INDUSTRIAL AS IN AGRICULTURAL COMMUNITIES

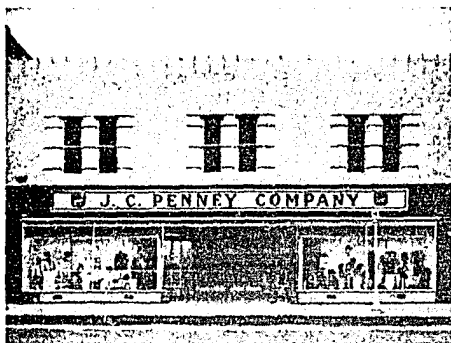
MIDDLETOWN, CONN.

In this busy New England town, Penney's is one of the modern stores and the meeting place of thrifty shoppers. It is typical of medium sized Penney stores in the eastern part of the United States.



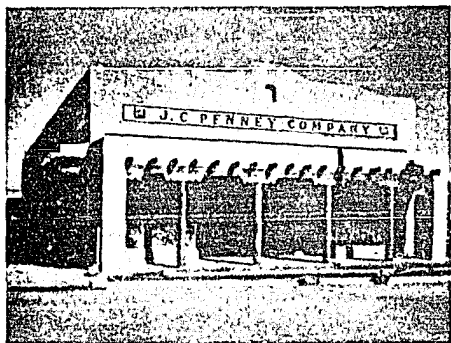
LAKELAND, FLORIDA

In the county seat of one of the largest citrus producing areas in the United States, this J. C. Penney store serves the needs of year-around and the winter-tourist trade.



TAOS, NEW MEXICO

Definitely Southwestern in character, this Penney store, in deep New Mexico, the heart of the Pueblo Indian country, features merchandise precisely suited to its small town and the surrounding art colonies and ranchers.



PENNEY MERCHANDISE, ALWAYS OF HIGHEST QUALITY, IS KNOWN FROM COAST TO COAST

Adonna Lingerie
Austelle Millinery
Brentwood Dresses
Cynthia Slips
Foremost Work Clothes
Gaymode Hosiery
Glenbrooke Women's
Coats & Slips
Glen Row Dresses
Golden Day n Blankets &
Percale Sheets
Jean Nedra Dresses
Lady Lyke Foundations
Little Teacher Shoes
Majestic Belts and
Suspenders
Marathon Men's Hats
Nation-Wide Sheets &
Sheeting

Nursery Infants' Goods
Pencale Percale Sheets
Penco Sheets & Sheeting
Penimaid Notions
Rondo Percale
Silver Moon Lingerie &
Cotton Goods
Sportclad Men's Outerwear
Sunny Tucker Girls' Dresses
Super Big Mac Work
Clothes
Super Ox Hide Work
Clothes
Super Pay Day Work
Clothes
Swimaway Bathing Suits
Town-Clad Men's Clothes
Towncraft Men's Shirts
True Blue Boys' Shirts

In apparel for all the family and in dry goods lines Penney's own brands rank among the largest selling in the country. The Penney business today rests squarely on Penney's reputation for high quality and day in and day out outstanding value.

Every piece of Penney branded merchandise is manufactured strictly to Penney's own rigid specifications and "seconds" or "rejects" are not sold in Penney stores. The quality in Penney merchandise is not only high to begin with, but in the Penney laboratory, continuous testing is done to make sure that these high standards of quality and value are maintained.

Customer satisfaction is the biggest asset a store can have. The J. C. Penney Company has maintained customer satisfaction over the years by carrying only high quality merchandise, and by constantly increasing its intrinsic value.

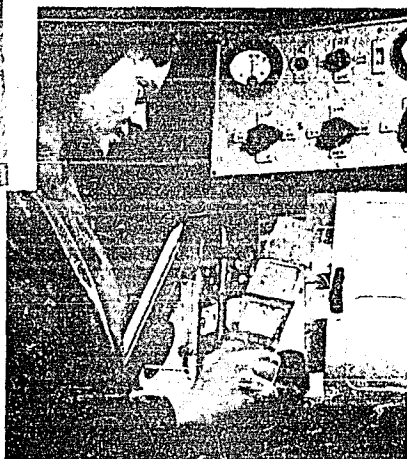
PENNEY'S OWN LABORATORY IS CONSTANTLY CHECKING MATERIALS AND CONSTRUCTION

RIGHT: The denim used in Penney's Super Big Mac overalls is regularly subjected to strenuous wear tests on abrasion machines



LEFT: Shoe linings are here being checked and tested for breaking strength in the J. C. Penney Company's own Laboratory.

RIGHT: The color-permanence of fabrics is regularly tested in the Fade-ometer which subjects materials to light rays of great intensity.



J. C. PENNEY COMPANY

A D E L A W A R E C O R P O R A T I O N

Officers

J. C. PENNEY
Chairman of the Board

E. C. SAMS
President

J. I. H. HERBERT
3rd Vice-President and Treasurer

A. W. HUGHES
Vice-President

A. J. RASKOPF
Secretary

W. A. REYNOLDS
2nd Vice-President

R. W. TROWN
Comptroller

Directors

J. C. PENNEY, Chairman

E. C. SAMS

G. H. CROCKER

J. I. H. HERBERT

W. A. REYNOLDS

GEO. H. BUSHNELL

EARL A. ROSS

L. W. HYER

A. W. HUGHES

LEW V. DAY

F. W. BINZEN

